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EX PARTE OR LATE FILED

June 27, 1997

Mr. William Caton
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

RECEIVED

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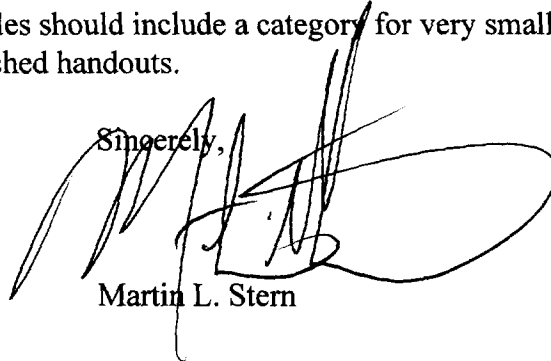
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: Notice of Ex Parte Presentation, CC Docket No. 92-297, *et al.*

Dear Mr. Caton:

Pursuant to 47 C.F.R. § 1.1206(a)(2), WebCel Communications, Inc. ("WebCel") is filing with the Secretary an original and one copy of this notice of an ex parte presentation in the above-captioned proceeding. On June 25, 1997, David Mallof, President of WebCel, John Audet, Vice President of Financial Analysis and Business Planning, and I met with Michael Riordan, Chief Economist, Evan Kwerel, Senior Economist, and John R. Williams, Senior Electronics Engineer, in the Office of Plans and Policy. At this meeting, we discussed WebCel's view, as set out more fully in its Petition for Partial Reconsideration filed in this docket, that the LMDS designated entity rules should include a category for very small businesses. WebCel also provided the attached handouts.

Sincerely,



Martin L. Stern

Attachments

cc: Michael Riordan
Evan Kwerel
John R. Williams

MLS/jkl

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Proposed in Docket 97-82

Revenues (millions)	Interest Rate	Terms	Bid Discount (%)
< 3.0	T-Note	2 Yr Int Only, 3-10 P&I	25.0%
< 15.0	T-Note + 1.5%	2 Yr Int Only, 3-10 P&I	15.0%
< 40.0	T-Note + 2.5%	2 Yr Int Only, 3-10 P&I	10.0%
< 75.0	T-Note + 2.5%	1-10 P&I	
< 125.0	T-Note + 3.5%	1-10 P&I	

LMDS R&O

Revenues (millions)	Interest Rate	Terms	Bid Discount (%)
< 40.0	T-Note + 2.5%	2 Yr Int Only, 3-10 P&I	25.0%
< 75.0	T-Note + 2.5%	1-10 P&I	15.0%

Notes:

1. Incremental Discount Rate used is the same for all analyses.

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Cost of Capital

Marketable Majority FMV of Firm (less than)	Equity & Risk Free Rates	Equity Rate	Debt Rate	WACC 1:1 D/E	Cost of Capital Advantage	
					Incremental	Cumulative
\$4,050,000	24.40%	19.38%	11.75%	15.73%		
\$6,750,000	23.60%	18.58%	10.75%	15.03%	0.70%	0.70%
\$13,500,000	22.40%	17.38%	10.25%	14.28%	0.75%	1.45%
\$67,500,000	19.80%	14.78%	9.75%	12.83%	1.45%	2.90%
\$135,000,000	18.70%	13.68%	8.75%	11.98%	0.85%	3.75%
\$1,350,000,000	14.90%	9.88%	7.85%	9.81%	2.17%	5.92%
\$13,500,000,000	11.10%	6.08%	7.35%	7.76%	2.05%	7.97%

Rate on Equity Calculator
from
Abrams Table of Equity Premia Based on FMV

Regression Results Marketable Minority FMV	Marketable Majority FMV	Implied R	Implied Equity Premium
\$1	\$1	48.80%	43.78%
\$1,000	\$1,350	37.50%	32.48%
\$5,000	\$6,750	34.90%	29.88%
\$10,000	\$13,500	33.70%	28.68%
\$30,000	\$40,500	31.90%	26.88%
\$50,000	\$67,500	31.10%	26.08%
\$100,000	\$135,000	30.00%	24.98%
\$300,000	\$405,000	28.20%	23.18%
\$500,000	\$675,000	27.30%	22.28%
\$1,000,000	\$1,350,000	26.20%	21.18%
\$3,000,000	\$4,050,000	24.40%	19.38%
\$5,000,000	\$6,750,000	23.60%	18.58%
\$10,000,000	\$13,500,000	22.40%	17.38%
\$50,000,000	\$67,500,000	19.80%	14.78%
\$100,000,000	\$135,000,000	18.70%	13.68%
\$1,000,000,000	\$1,350,000,000	14.90%	9.88%
\$10,000,000,000	\$13,500,000,000	11.10%	6.08%

Assumptions

Majority Interest Premium	35.00%
Long-Term Government Bond Rate [Historical]	5.02%

Determination of Discount Rate

In a report prepared for ANY Capital Corporation, we have previously calculated the required equity rate of return for THE COMPANY to be 23.0% and a weighted average cost of capital of 15.6%. Since this valuation of OTHER COMPANY and affiliates is premised on a sale to THE COMPANY we have chosen to use the corporate rate previously determined. That analysis is presented below in its entirety *verbatim*.

However, since the valuation dates are different we did wish to review the "risk-free" rate as of the valuation date of this report. As of June 30, 1995 the risk-free rate for 5-year constant maturities U.S. treasury instruments was 5.95%. The following analysis used a 6.0% rate. The difference is negligible and consequently no change has been made to the following discount rate determination.

Discount Rate Calculation

The Capital Asset Pricing Model ("CAPM") is the generally accepted tool used to estimate an appropriate discount rate for a discounted cash flow analysis. As noted below, application of the model as regards to THE COMPANY requires consideration be given to: (1) "risk-free" interest rates available in the marketplace (such as those of U.S. Government and high-grade corporate bonds) as of the valuation date; (2) the returns on small capitalization publicly traded stocks; (3) the relative risks associated with the stock of the subject company (including consideration of the industry in which it operates), relative to the overall stock market, as measured by Beta (" β ") and (4) an additional premium for "small" stocks. A discount rate using the CAPM formula is derived as follows:

$$\text{ROE} = R_f + \beta(\text{ERP}) + S_p$$

Where:

ROE = the Rate of Return on Equity (Cost of Equity)

R_f = the Risk-Free Rate of Return (Interest Rate)

β = the Beta of the Stock, a measure of the volatility of a specific investment in relation to the Market Portfolio

ERP = the Expected Equity Risk Premium (the amount by which investors expect the future return on equities to exceed that of the riskless asset)

S_p = the Size Premium (addition premia to account for the fact that betas for small companies, while larger than large companies do not account for all the risks faced by investors).

It should be noted that the utilization of this technique is an iterative process. One must estimate the ultimate marketable majority fair market value of the firm to choose the appropriate equity premium, perform a discounted cash flow analyses using the indicated discount rate, and then confirm that the calculated marketable majority fair market value remains within the specified equity premium range.

Abrahms technique is helpful in confirming our discount rate calculation. We estimated the fair market value of THE COMPANY in the range from 13.5 million to 67.5 million dollars. This range, according to Abrahms, suggests an equity premium of between 17.4% and 14.8%. After iteration, the appropriate equity premium was determined to be 17.09%. Using the previously suggested risk-free rate of 6.00% yields the following calculation:

$$\text{ROE} = R_f + \text{ERP}$$

$$\text{ROE} = 6.00\% + 17.09\% = 23.09\%$$

Correlation and Conclusion

The modified CAPM model suggests an equity discount rate of 22.85%. Abrahms work suggests a 23.09% rate. Consequently, we have chosen to take an average of the two derived rates for an equity rate of 23.0% (rounded).

For the debt return, we have assumed an 11.75% rate on senior debt. This figure is based upon a prime rate of 8.75% and three points. This is in keeping with the senior financing we are currently seeing for smaller TYPE COMPANIES companies.

Size Premium

The original development of the CAPM formula did not include a size premium. However, empirical research has conclusively shown that the CAPM does not account for the higher returns of small company stocks. According to the 1995 Yearbook:

A beta greater than 1.0 indicates that the security is riskier than the market, and according to the CAPM equation, investors are compensated for taking on this additional risk. However, based on historical return data on the NYSE decile portfolios, the smaller deciles have had returns which are not fully explainable by the CAPM. This *return in excess of CAPM* grows larger as one moves from the largest companies in decile one to the smallest in decile 10. The excess return is especially pronounced for micro-cap stocks (deciles 9-10). This size related has prompted a revision to the CAPM which includes a size premium.

The Yearbook reports a size premium for the decile 10 basket of stocks to be 6.53%

CAPM Calculation

Using a risk-free rate of 6.00%, a beta of 1.47, an expected equity risk premium of 6.02% and a size premium of 6.53%, the CAPM equation derives an appropriate discount rate for an equity investment in THE COMPANY. Our calculations are presented below.

$$\text{ROE} = 6.00\% + (1.47 \times 7.02\%) + 6.53\% = 22.85\%$$

Alternative Discount Rate Presentation

Jay B. Abrahms, in the August 1994 edition of *Valuation*⁴, the Journal of the American Society of Appraisers, develops a table of implied equity premiums ranked by the marketable majority fair market value of the firm in question. The work has three attractive features: (1) It is based upon the empirical data contained in the Ibbotson Yearbooks; (2) it eliminates the need to use the CAPM equation since equity premiums are given for company size based on market capitalization and; (3) equity premiums are developed for companies whose fair market value is as low as one dollar.

Mr. Abrahms suggests that his “. . . Table of Equity Premiums is three times more accurate than CAPM for NYSE firms, it is far more accurate than CAPM for smaller firms, as CAPM gives us no clue as to the magnitude of sub-NYSE small firm premia.”

⁴ Abrahms, Jay B. August 1994. *Valuation*. American Society of Appraisers, Vol. 39, Number II. Washington, DC. pg 14.

The Risk-Free Rate of Return

The risk-free component of the CAPM represents the expected return by an investor for investing in a totally risk-free investment. The return (interest rate) on U.S. Treasury securities of the same maturity as the investment under consideration is normally considered as an appropriate risk-free (interest) rate.

The "risk-free" rates of interest available, as of September 1, 1995, are listed below.

<u>Investment</u>	<u>Interest Rate</u> ¹
U.S. Treasury Constant Maturities 5-Year	6.00%
U.S. Treasury Constant Maturities 10-Year	6.22%
Prime Rate	8.75%
Moody's seasoned Aaa Corporate Bonds	7.35%

In general, equity investments are relatively long-term in nature. In calculating a discount rate, it is appropriate to match the maturity of the riskless asset with the investment horizon. However, since the income approach presented herein uses a discounted cash flow analysis incorporating two components, *i.e.*, a five year projected performance analysis and a terminal value, we selected the U.S. Treasury constant maturities 5-year rate of 6.00%, as the appropriate risk-free rate to use in the CAPM.

Expected Equity Risk Premium and Beta

As reported by Ibbotson Associates², the average annual arithmetic CAPM return -- in excess of the risk-free rate -- achieved from investing in a portfolio of the smallest decile NYSE companies³ for the 1926-1994 time period was 10.33%. The historical beta of this decile of stocks is 1.47; consequently it implies an expected equity risk premium of 7.03%.

¹ Source: Federal Reserve Statistical Release.

² Stocks, Bonds, Bills and Inflation: 1995 Yearbook; Ibbotson Associates; Chicago, Illinois. Pg 135

³ All companies on the New York Stock Exchange are ranked by the combined market capitalization of their eligible equity securities. The companies are then split into ten equally populated groups or deciles.